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SUBJECT: ITALY AND THE EU: WHY DO MILK QUOTAS MATTER?

REF: A. (A) USEU BRUSSELS 1444

- [1](#)B. (B) USEU 1672
- [1](#)C. (C) USEU 671
- [1](#)D. (D) USEU 1026

Classified By: Economic Minister-Counselor Scott Kilner
for reason 1.5 (d)

[1](#)1. (C) Summary: In an attempt to finally put to rest the knotty problem of EU fines for overproducing milk, the Berlusconi government has found itself caught between an exasperated EU and intransigent Italian milk producers, supported by the Northern League (LN). The GOI has used tough tactics in Brussels and in the Italian Parliament in hopes of forcing through measures to permit dairy farmers to pay back, over 30 years without interest, E 924 million in EU fines for excess milk production. In the EU Council of Ministers, Italy is blocking agreement on the EU Tax Package until the 14 other member states agree to the deal. In the Italian Chamber of Deputies, on May 21, the GOI forced all coalition deputies to approve a decree law, requiring the farmers to pay the fines over the next 30 years. The vote had to be made a vote of confidence to ensure approval. The Northern League abstained -- a major concession as most LN deputies strongly opposed the measure. The Senate is approved on May 29. However, for the measure to be effective, the GOI will have to persuade the EU to go along with it. Some observers believe the matter will eventually go to the European Court of Justice. The GOI, in trying to resolve an increasingly troublesome dispute, has damaged itself in the EU on the eve of its presidency and has won itself no friends at home. End Summary.

[1](#)2. (SBU) Watching Italy stubbornly stall action within Ecofin on the EU Tax Package) holding it hostage to concessions allowing Italian dairy farmers to pay EU fines for excessive milk production over 30 years, many observers wonder why. Why is Italy, a country known for compromise and flexibility, making such a fuss about milk quotas?

How Craxi,s Government Created the Problem

[1](#)3. (SBU) In 1984, the center-left government of Prime Minister Bettino Craxi accepted milk production limits proposed by the EU Commission that were far below the level of domestic milk production at that time. Opinions differ as to whether this was due to Italian incompetence (the Ministry of Agriculture not knowing how to get an accurate statistical read-out of the true production picture), or simple disinterest (the GOI agreeing to an EU proposed quota) or in exchange for some other concession from Brussels. Whatever the case, the upshot was that Italian milk producers found themselves limited to production levels well below previous levels and well below domestic demand. Moreover, according to an independent producers association, a significant amount of Italy's quota was assigned to farms that did not produce milk, but had falsely applied for quotas and subsidies. This left legitimate milk producers with even lower quotas.

[1](#)4. (SBU) Once the quotas were made public, the GOI found itself faced with serious national protests by dairies, milk producers and the animal breeder association (AIA). Producers blocked motorways and Milan's Linate Airport, poured milk onto roads and distributed free milk in town squares. The GOI's response was to reassure producers that they didn't need to worry about the quotas, and that everything would somehow be worked out. Moreover, they told producers that they would never have to pay the EU fines and that a way would be found in Brussels to solve the problem. The milk producers agreed to suspend their demonstrations, but threatened to resume them if ever forced to pay the fines.

15. (SBU) Over the nearly 20 years since, dairy farmers have continued to resist the quotas. Unpaid fines for overproduction mounted -- in some cases to well over the annual income of the producer. Italian governments initiated the practice of paying these fines to Brussels on behalf of

offending milk producers. Successive center-left governments continued to assure producers that they would never have to pay the fines. Any apparent change in policy triggered renewed protests) blocked motorways and gallons of milk poured out publicly. Successive governments) most recently that of Amato in 2000) provided renewed assurances. Regional disputes within Italy regarding quotas have also grown. The Lombardy region has taken the GOI to court a number of times arguing that their producers have received too little of the total quota.

Between a Rock and a Hard Place

16. (SBU) The government of Prime Minister Berlusconi came to office in 2001, and found the milk quota issue reaching a crisis point. The GOI decision to pay the fines on behalf of its Italian producers was not viable. The EU Commission had confirmed in a ruling that Italian farmers were liable for the overproduction fines, and that payment by the GOI constituted an illegal state aid. The accumulated penalties had mounted to E 924 million, far beyond, producers contended, their ability to reimburse the government. Moreover, these producers remained bitter over the 1984 imposition of quotas -- seen as an act of betrayal by the government. They refused to be victimized a second time.

17. (SBU) Faced with diametrically opposed forces on both sides, the GOI determined to craft a compromise solution -- which it calculated that both sides would resist, but might eventually accept: The fines would be paid back by the farmers (as Brussels required), but over a period of 30 years and without interest (to prevent massive bankruptcies among milk producers).

Getting to Yes in Parliament

18. (C) In late March 2003, the GOI introduced a decree law to this effect in Parliament, despite having been rebuffed by EU member state finance ministers on March 7 in ECOFIN (ref A), at a special March 19 ECOFIN session and by heads of state and government at the March 20 EU summit (ref B). Reports received by USEU agree that the GOI's strategy of tying approval of the unrelated EU Tax Package in the ECOFIN Council to a rollback of the Commission ruling on milk production fines succeeded only in alienating the other 14 governments, who regarded the GOI maneuver as "blackmail." All had anticipated easy approval of the Tax Package March 7, following political agreement in the Council (including Italy) on the troublesome savings taxation measure January 21 after over a year of hard bargaining (Ref C). The GOI had not helped its case by failing to signal its intention at the February 18 ECOFIN little more than two weeks earlier (Ref B).

19. (SBU) It was immediately clear that the Berlusconi government's proposed decree law faced tough opposition even within the governing coalition. Northern League (LN) party leader Umberto Bossi (whose northern Italian base includes most of Italy's dairy production) had made fair treatment of milk producers a key platform in his 2001 campaign. Other LN leaders had pledged to protect producers from having to pay "unfair" fines. The GOI faced the real prospect of seeing the legislation defeated.

110. (SBU) The decision was therefore made to make the vote on milk quotas a vote of confidence. This was not an unprecedented step. In fact, since 2001, the Berlusconi government had called six votes of confidence -- two in the Senate and four in the Chamber of Deputies. The vote was called on May 21, and passed easily. However, Northern League (LN) deputies abstained, and many made clear their resentment during the Chamber's debate. The LN Group Leader, Alessandro Ce, declared: "Today we renew our confidence in the Government, but Berlusconi should no longer have any illusions." He went on to argue that legislation like the milk quota decree law damaged the Italian people and the Italian national interest.

The Decree Law

11.(U) The decree law approved in the Chamber provides for monthly installment payments by milk producers of fines for overproduction during the period 1995/96 to 2001/2. The Ministry of Agriculture will establish special incentives for conversion from milk production to other livestock production.

Next Steps

112. (SBU) The decree now must be approved by the Senate, where it is expected to pass easily. EU member state

representatives in Brussels reached no agreement at its May 28 COREPER, and discussions are scheduled to continue at the COREPER meeting on June 2. Depending on the results of that meeting, finance ministers may consider it again during the June 3 ECOFIN council in Luxembourg. Unanimous approval would be necessary for the Council to overrule the Commission decision to require milk producers to repay the GOI immediately for fines paid on their behalf.

Comment:

13. (C) The Italian Government has struggled mightily to solve a longstanding, deeply entrenched problem. However, no one is applauding. The milk producers are decrying unfairness and betrayal. Northern League politicians are complaining that core LN interests are ignored, while LN support is taken for granted. In Italy, the milk quota problem is one with no easy solution, which has created considerable discomfort within the majority coalition. As evidenced by the confidence vote, however, even on an issue this close to its core interests, the Northern League (as do other coalition partners) sees its interests better protected by being within the government than by leaving it. While there will be no government collapse, this issue may resonate within Italy for some time to come. Within the EU, Italy has damaged its standing on the eve of its EU presidency.

14. (U) This message has been coordinated with USEU Brussels.

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